

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Kaloogian Analyst: Kristina North Bill Number: AB 122  
Related Bills: AB 2109  
(1997/1998) Telephone: 845-6978 Introduced Date: January 5, 1999  
Attorney: Doug Bramhall Sponsor: \_\_\_\_\_

**SUBJECT:** Public School Sponsored Activity Fees Credit/FTB Report To Legislature  
Fiscal Impact

### SUMMARY

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would authorize a credit to taxpayers equal to any fees paid, up to \$500, to a qualified school in the support of a school sponsored activity.

### EFFECTIVE DATE

This bill would apply to taxable and income years beginning on or after January 1, 1999.

### SPECIFIC FINDINGS

**Current state and federal laws** allow a tax deduction for limited types of personal expenses. Some personal expenses, including certain taxes and home mortgage interest, generally are fully deductible. Personal medical and dental expenses are deductible only to the extent they exceed 7.5% of the taxpayer's adjusted gross income (AGI), while other miscellaneous itemized deductions, including unreimbursed employee expenses, job education, and tax preparation fees, must exceed 2% of AGI. Generally, expenses paid or incurred for the education of a child are considered a personal expense which is not deductible.

**Current federal and state laws** allow a deduction for charitable contributions to various types of qualified organizations, including educational organizations such as public schools.

**Current federal and state laws** allow a deduction for business expenses, which could include advertising on school team uniforms and other team sponsorship activities.

**Current federal and state laws** provide for various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child and dependent care credits) or to influence business practices and decisions. However, neither state nor federal laws currently allow a credit for expenses relating to school-sponsored activities.

**Current state law** provides general rules which apply to all tax credits, unless the individual credit provisions specify otherwise. General rules describe the division of credits among multiple taxpayers or between a husband and wife. Except as specified, no tax credit may reduce regular tax below the tentative minimum tax for alternative minimum tax purposes.

#### Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u>X</u> PENDING

#### Department Director

#### Date

**Gerald Goldberg**

**02/04/1999**

**This bill** would allow a credit equal to any fees, not to exceed \$500 per taxpayer, paid to a public school in this state for a student's participation in a school sponsored activity.

**This bill** defines:

- ♦ "school sponsored activity" as an activity requiring students to pay a fee to participate, including team sports (such as baseball, basketball, football, and volleyball), band, science laboratory and the visual and performing arts. **This bill** specifically excludes class field trips, camping trips, trips to amusement parks or other resorts, or other purely recreational activities.
- ♦ "qualified fee" as money paid by a taxpayer to a qualified school for a student's enrollment, equipment, transportation, uniform, or other fees required to participate in a school-sponsored activity.
- ♦ "qualified school" as any public primary or secondary school, grades K-12, located in this state.

**This bill** would require the qualified school to provide the taxpayer with a receipt for any fees paid, including the school name, amount, date, and purpose of payment. The taxpayer would be required to provide a copy of the receipt to the Franchise Tax Board (FTB) upon request.

**This bill** requires the FTB to report on the fiscal impact of the credit to the Legislature on or before July 1, 2001.

**This bill** provides that, in the case of a husband and wife filing a separate return, the credit would be divided equally between them.

**This bill** provides the credit would be in lieu of any deduction to which the taxpayer would otherwise be entitled.

**This bill** would provide that a taxpayer may carry over any excess credit for the succeeding five years, until exhausted, whichever occurs first.

Since this bill does not specify otherwise, **this credit** would not reduce regular tax below tentative minimum tax.

#### **Policy Considerations**

This bill would provide an unprecedented 100% credit of qualifying expenses up to \$500 per taxpayer.

This bill does not contain a sunset date so that the Legislature may review its effectiveness.

#### **Implementation Considerations**

The implementation of this bill would not significantly impact the department.

**LEGISLATIVELY MANDATED REPORTS**

The FTB would be required to prepare a report to the Legislature on the fiscal impact of the credit provided in this bill by July 1, 2001.

**FISCAL IMPACT**

**Departmental Costs**

This bill should not significantly impact the department's costs.

**Tax Revenue Estimate**

Based on data and assumptions discussed below, revenue losses from this bill are estimated to be as follows:

Estimated Revenue Impact of <b>AB 122</b> As Introduced 1/5/99 Assumed To Be Enacted After 6/30/99 (In \$Millions)			
Fiscal Years	1999/00	2000/01	2001/02
T O T A L	(82)	(78)	(82)

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

**Tax Revenue Discussion**

Revenue losses would be determined by the number of taxpayers paying fees for activities sponsored by qualified public schools, the amount of fees, and the tax liabilities of taxpayers.

The estimates above are based on a prior analysis for AB 2109 (1997/98) updated for more current data.

According to data from the California Department of Education, the number of students enrolled in California public schools in grades K-12 was approximately 5.7 million during the 1997/98 school year.

It was assumed that 5% of students would have taxpayers (individuals as well as businesses) paying an average amount of \$250 during the school year for students' participation in qualified activities. The number of payers and dollar amounts were grown annually by school enrollment growth rates as well as by 2.5% annual inflation rate.

With a deduction offset applied, revenue losses would be on the order of \$80 million per school year. It is projected that three-fourths of the impact of this bill would occur under the PIT law and the balance under the BCT law.

**BOARD POSITION**

Pending.